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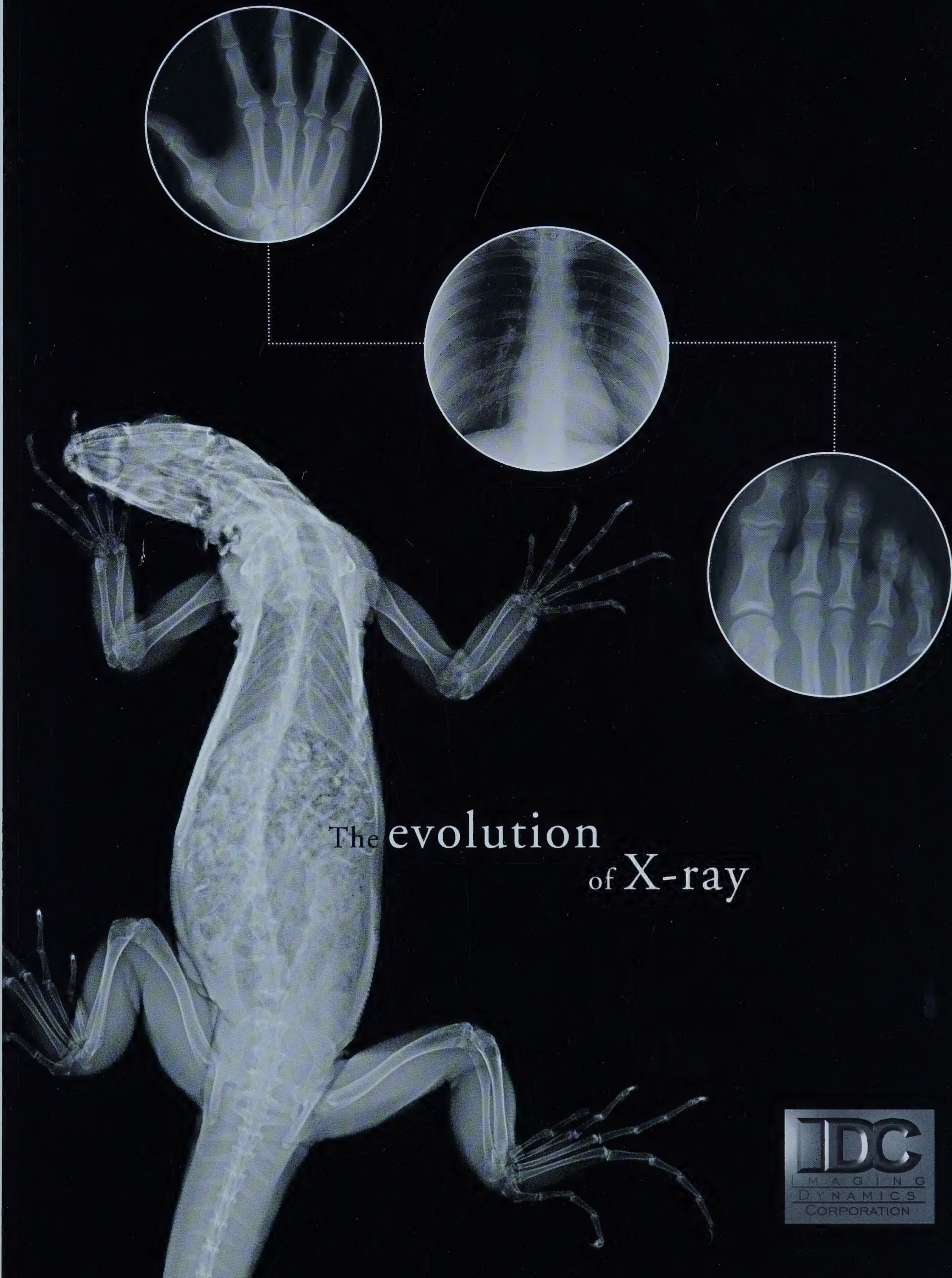
IMAGING DYNAMICS CORPORATION ANNUAL REPORT



The evolution of X-ray

CORPORATE INFORMATION

OFFICERS AND DIRECTORS:

Ronald R King	President Director Chief Executive Officer
Douglas Street	Director
Robin Winsor	Director

AUDITORS:

Kahn Halpern Shikaze
#300, 715 – 5 Avenue SW
Calgary, AB T2P 2X6

BANKERS:

Canada Trust
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Calgary, AB T3A 5R8

TRANSFER AGENT:

Montreal Trust
#600, 530 – 8 Avenue S.W.
Calgary, AB T2P 3S8

SOLICITORS:

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STOCK EXCHANGE LISTING:

Alberta Stock Exchange
Symbol: ID

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LETTER TO THE SHAREHOLDERS OF IDC FROM THE PRESIDENT

JUNE 99

Imaging Dynamics Corporation (IDC) has made considerable progress over the course of the year ending December 31st 1998. Core technology advancements have produced a technically sound and commercially viable digital x-ray product applicable to both new radiology lab installations and retrofitable into existing labs. Of key significance is the customer value proposition of IDC's product that demonstrates the Best Price/Performance ratio currently available on the market. More specifically, a typical radiology lab has the opportunity to experience a payback period of eighteen to twenty eight months using IDC's digital x-ray product as compared to today's costs of film based systems.

Primary successes attained in 1998 included successfully completing two engineering development cycles resulting in a pre-production prototype and raising of sufficient financing to carry on the business's core activities. Initial live subject testing of the pre-production prototype demonstrated diagnostic quality images in the opinion of experts in the field of radiology. At the end of the year, the company initiated the market certification process in Canada and the US. IDC also received notice of allowance for an additional Canadian patent covering its technology.

As 1998 came to a close the company's planning for the final stages of commercialization were completed. IDC's goals for 1999 were to:

- complete Canadian and US certifications,
- raise a major financing,
- clearly define and market IDC's value proposition,
- generate initial sales through the development of marketing and distribution relationships,
- ramp up production facilities in preparation for sales growth in 2000.

MARKET AND IDC OPPORTUNITY UPDATE

General X-ray radiology comprises about 65% of all human diagnostic-imaging exams and is the only method of diagnostic imaging that has not converted to digital. This 100-year-old market sector has started the transition from film based to digital imaging technology. That transition is being driven by market needs for greater process efficiency, lower costs, increased image storage capacity and by initiatives in the provision of "Telemedicine".

Customer barriers to entry include the prohibitive costs of systems averaging US$300,000 offered by IDC's competition and a lack of the appropriate information technology infrastructure. At the current competition's price level only the premium sector of the market can afford to purchase these systems and the sales are generally embedded in large diagnostic imaging departmental wide solutions.

IDC's product positioning is targeted at the Best Price/Performance ratio on the market. Business fundamentals include customer pay back periods less than thirty months at IDC product pricing of US$90,000. This price represents a substantial cost savings of 60% or better as compared to competitive offerings. Market studies indicate the price sweet spot for widespread adoption of digital x-ray systems for general radiography is US$100,000 and under for the average clinical setting. The basis for this payback analysis is the cost savings gained from replacing film and its supporting infrastructure.

The human diagnostic imaging market is historically a relationship-based industry. The company's global marketing and distribution thrust is based on developing value added reseller (VAR) and original equipment manufacturer (OEM) relationships. IDC's typical distribution prospect includes corporations that have large existing customer bases. Their average customer wants to make the transition from film to digital imaging as soon as the economics are viable. IDC's intent is to turn these relationships into strong, sustainable sales growth for both organizations and IDC is actively pursuing a number of these strategic relationships.

Research and Development Advancements

IDC's second-generation pre-production prototype has achieved the goal of capturing digital images that meet the standards required for human diagnostic imaging. The technical specifications for this system substantially exceed those required for diagnostic imaging and exceed all current competitors for image resolution. A key attribute of the system is our auto triggering technology and the ability it gives us to easily retrofit the system into existing x-ray labs. There is no requirement for connection to the x-ray generation equipment itself. IDC has retained the intellectual property rights to key system and software components and is not subject to single source supplier risks. Supplier agreements are in place and we have ensured that cost of goods and supplier capacities are all within targets.

The company was able to achieve its 1998 research and development goals on time and within budget.

Financial Results

Over the past year, IDC's expenses were $ 711,529, an increase of $14,987 from $ 694,590 in 1997. Two items of note are our Research and Development investment dropping to $ 285,712 from $ 393,654 in 1997 and General Administration expenses increasing from $ 238,643 to $ 323,638. This reflects the company's shift from pure R & D to commercializing the product. Additional overhead included computer infrastructure updating, professional and public company expenses and marketing.

The company incurred long term unsecured, non-interest bearing debt of $ 283,662 and has repayment agreements in place.

As detailed in the notes to the financial statements, the company converted the outstanding $600,000 debenture for 6,000,000 common shares.

Investment Funding and Other Sources of Income

IDC's primary source of funding for the 1998 financial year was from the private sector. This financing was for $230,000 structured as a convertible debenture. Additional funding was also provided in the 4th quarter of 1998 in the form of an unsecured loan.

In the fourth quarter of 1997, IDC entered into a joint venture agreement. Funding from this joint venture totaled $340,000 and was paid in the first quarter of 1998. The joint venture partner earned a 3.2% interest in IDC and subsequently agreed to exchange its interest for 640,000 common shares, which were issued from treasury in the third quarter of 1998.

Other outstanding debt in the form of a variable rate demand note payable was closed with the issuance of 1,142,420 common shares from treasury.

Intellectual Property

IDC's Canadian and European patent applications, which are based on the existing patent issued by the U.S. Patent and Trademark Office (USPTO), are progressing and IDC is expecting closure in 1999. The company continues to ensure that intellectual property ownership and rights to the engineering and software design remain with IDC and supplier contracts are complying with this requirement.

1999 Update and Outlook

As 1999 unfolds, IDC is on track to achieving its goals. The Company is in the process of raising additional capital through a private placement of $300,000 to $400,000. A number of initiatives are under way in preparation for raising capital in the latter half of 1999 in conjunction with IDC further achieving its commercialization goals.

Canadian certifications are proceeding according to plan and the company has received its Health Canada classification for the IDC 2000 Digital X-ray System. The IDC 2000 is classified as a Class 1 medical device pursuant to the Food And Drugs Act Medical Devices Regulations Schedule 1. With this classification, only the completion of the normal Canadian Standards Association (CSA) electrical safety certification is required for IDC to commence sales in Canada. IDC has substantially completed all CSA testing and is awaiting final certification.

The US FDA 510K certification process is in progress and the company is working towards a completion time of fall/winter 1999.

IDC has sold and is planning to deliver its first two systems to customers in Canada in the fall.

On the marketing front IDC will be attending the 1999 Radiological Society of North America (RSNA) conference in Chicago at the end of November. The RSNA is the premium showcase for new emerging technologies in the field of radiology and attracts upwards of 60,000 delegates from around the world. IDC's development has progressed to the level where the company will strengthen its marketing capacity with the addition of senior marketing staff responsible for growing sales in North America and opening European and Pacific Rim markets.

The company is planning a move to new facilities in October 1999. The new facility will support the company's continued commercialization and expansion.

We look forward to keeping you updated on our activities and successes. I thank you for your continued interest and support, and look forward to meeting you at the next Annual & General meeting of shareholders scheduled for the fall of 1999.

Sincerely,

Ronald R. King
President

AUDITORS' REPORT

To the Shareholders of Imaging Dynamics Corporation:

We have audited the balance sheets of Imaging Dynamics Corporation as at December 31, 1998 and 1997 and the statements of operations and deficit and changes in financial position for the years ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements fairly, in all material respect, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Kahn Halpern Shikaze

Calgary, Alberta
April 29, 1999

Kahn Halpern Shikaze
Chartered Accountants

Balance Sheet
As at December 31

ASSETS

		1998		1997
Current				
Cash	$	**88,582**	$	200,454
GST receivable		**20,084**		22,717
Investment tax credits receivable (Note 8)		**-**		70,192
Prepaid and other assets		**8,923**		3,574
		117,589		296,937
Capital assets (Note 3)		**69,568**		104,648
	$	**187,157**	$	401,585

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

		1998		1997
Current liabilities				
Accounts payable and accrued liabilities	$	**135,733**	$	192,201
Deferred revenue (Note 5)		**227,205**		204,024
Due to related parties (Note 4)		**233,150**		106,021
Current portion of obligations under capital lease (Note 6)		**9,486**		6,621
		605,574		508,867
Obligations under capital lease (Note 6)		**4,865**		7,682
Loans Payable (Note 7)		**283,662**		-
Convertible debenture (Note 10)		**-**		600,000
		894,101		1,116,549
Shareholders' deficit				
Share capital (Note 10)		**1,862,477**		1,151,704
Deficit		**(2,569,421)**		(1,866,668)
		(706,944)		(714,964)
	$	**187,157**	$	401,585

See accompanying notes

Approved by the Board of Directors:

_______________ Director

_______________ Director

STATEMENT OF OPERATIONS AND DEFICIT
For the Years ended December 31

	1998	1997
Interest income	$ **8,776**	$ 1,952
Expenses		
Research and development		
Expenditures	**285,712**	393,654
Expense recovery	**(31,850)**	-
Investment tax credits recoverable	**-**	(70,192)
General and administration	**323,638**	238,643
Interest on note payable and convertible debenture	**13,372**	21,325
Amortization	**87,030**	108,487
Loss on disposal of assets	**10,446**	4,625
Unrealized foreign exchange loss	**23,181**	-
	711,529	696,542
Net loss for the year	**702,753**	694,590
Deficit, beginning of year	**1,866,668**	1,172,078
Deficit, end of year	**$ 2,569,421**	$ 1,866,668
Loss per share	**$ (0.05)**	$ (0.05)

See accompanying notes

Statement of Changes in Financial Position
For the Years ended December 31

	1998	1997
Cash provided by (used in) operating activities		
Net loss	$ (702,753)	$ (694,590)
Add: Amortization	87,030	108,487
Loss on disposal of assets	10,446	4,625
Unrealized foreign exchange loss	23,181	
	(582,096)	(581,478)
Net change in non-cash working capital	11,008	224,978
	(571,088)	(356,500)
Cash used in investing activities		
Purchase of capital assets	(62,396)	(62,080)
Cash provided by (used in) financing activities		
Issuance of share capital	114,243	61,000
Share issue costs	(3,470)	-
Obligations under capital lease	48	14,303
Issuance of convertible debenture	-	600,000
Advances under loans payable	283,662	-
Net advances from (to) related parties	127,129	(64,030)
	521,612	611,273
Increase (decrease) in cash	(111,872)	192,693
Cash, beginning of year	200,454	7,761
Cash, end of year	$ 88,582	$ 200,454

See accompanying notes

Statement of Changes in Financial Position

For the Years ended December 31

1. Company organization and operation

The Company, through its former wholly owned subsidiary, held a technology license. Effective December 31, 1997, the Company executed a windup of its subsidiary.

The Technology License grants the Company the exclusive world wide rights to develop and exploit the patented technology for the direct digital capture of x-ray images. This technology replaces the need for film and chemical film processing. The Company has created and tested a pre-production prototype which is producing diagnostic quality images. The Company has entered the commercialization phase and is in the process of obtaining government certifications in Canada and the USA after which the Company intends to commence sales and distribution of digital x-ray imaging systems.

These financial statements have been prepared on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At year end, the Company had a current working capital deficiency of $487,985 (1997 - $211,930). Should the Company be unable to successfully market a commercially viable product or raise additional funds, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

Technology License Agreement

Pursuant to the terms of the agreement and its amendments, the licensor received consideration of $265,000 and 2,000,000 common treasury shares of the Company. Payment was made by issuing variable rate demand notes in the amount of $265,000 (the terms of which are more fully described in Note 4), and by issuing the common shares and executing the technology license agreement.

Pursuant to the agreement, the Company issued a $10,000,000 demand debenture conveying a first floating charge over all its present and after acquired property and a general security agreement providing for a first priority security interest in all present and after acquired personal property as security of the above noted financial obligations. These notes were fully discharged during the year.

2. Significant accounting policies

The financial statements are prepared in accordance with generally accepted accounting principles in Canada. Among the more significant of these principles are the following:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. The Company provides for amortization of capital assets using the following annual rates:

Digital x-ray technology license	33 1/3% straight-line
Technical, lab and computer equipment	30% declining balance
Office equipment	20% declining balance

b) Research and development

Research costs are expensed as incurred. Development costs are expensed unless they meet certain criteria related to technical, financial and market feasibility, in which case they are deferred. There were no significant costs which meet the deferral criteria at December 31, 1998 and 1997.

c) **Foreign currency**

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year-end exchange rates. The non-monetary assets and liabilities are translated at the transaction date exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings.

3. Capital Assets

	1998		
	Cost	**Accumulated Amortization**	**Net Book Value**
Digital x-ray technology license	**$ 267,351**	**267,351 $**	**-**
Technical, lab and computer equipment	**110,318**	**59,475**	**50,843**
Office equipment	**26,820**	**8,095**	**18,725**
	$ 404,489 $	**334,921 $**	**69,568**

	1997		
	Cost	Accumulated Amortization	Net Book Value
Digital x-ray technology license	$ 267,351 $	226,241 $	41,110
Technical, lab and computer equipment	74,835	20,633	54,202
Office equipment	12,734	3,398	9,336
	$ 354,920 $	250,272 $	104,648

Included in computer equipment are assets under capital lease in the amount of $15,135 (1997 - $15,135) with related accumulated amortization of $5,242 (1997 - $1,002).

Included in office equipment are assets under capital lease in the amount of $10,300 (1997 - Nil) with related accumulated amortization of $2,887 (1997 - Nil).

4. Related Party Transactions

At the end of year, the amounts due to related parties are as follows:

	1998	1997
Promissory notes to a company controlled by a director of the Company. The amounts are unsecured, bear interest rates of prime plus 1% per month and are due on demand - see Note 14.	**$ 233,150**	$ -
Variable rate demand notes to a company controlled by a director due originally on the earlier of April 30, 1996 or the date on which the Company completes any financing by way of debt or equity, was repaid by conversion to common shares - see Note 10.	**-**	106,021
	$ 233,150	$ 106,021

Other related party transactions during the period are as follows:

During the year, the Company paid $27,400 (1997 - $114,178) to a director and companies controlled by the director for consulting, administration and research and development expenses incurred on behalf of the Company. The balance owing of $2,407 (1997 - $14,161) is included in accounts payable and accrued liabilities. In addition, the Company was charged interest of $13,372 by companies controlled by directors.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

5. Deferred Revenue

During 1997 the Company received $204,024 (US $148,500) for two units of the digital x-ray technology. Completion and delivery of the units is expected by September 1999.

6. Obligations Under Capital Lease

The Company has entered into lease agreements for computer and office equipment which expire in 2001. At December 31, 1998 the future minimum lease payments under capital leases are as follows:

1999	$	11,252
2000		4,300
2001		1,084
		16,636
Less: amount representing interest		2,285
		14,351
Less: current portion		9,486
Long-term portion	$	4,865

7. Loans Payable

		1998		1997
Pursuant to a Technology and Applications Development Project Agreement dated May 29. 1997, the Company received cost sharing contributions of $76,843. On September 23, 1998, the contributor notified the Company it was in default under the agreement. On November 27, 1998, the parities agreed to revise the original terms and conditions of the contributions whereby, the Company will pay in quarterly installments the balance owing of $76,843 plus an additional $15,369 (included in general and administration expenses) as follows: 12% from future sales; a lump sum payment out of an equity financing in excess of $1,500,000 (minimum payment of $25,000); and any remaining balance due on December 31, 2000.	$	**92,212**	$	-
Amount owing to a contractor that is unsecured, non-interest bearing and due as per agreement on the earlier of a significant additional equity financing or June 30, 2000.		**191,450**		-
	$	**283,662**	$	-

8. INCOME TAXES

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 44.62% as follows:

	1998	1997
Computed "expected" tax recovery	**$ (313,568)**	$ (309,926)
Amortization and loss on disposal of assets	**43,493**	50,470
Advance royalties payable	**6,858**	-
Investment tax credits	**10,990**	(18,056)
Capital cost allowance	**(25,572)**	(50,052)
Unrealized foreign exchange loss	**10,343**	-
Other	**(3,058)**	736
Unrecorded income tax benefit of loss carry forward	**270,514**	326,828
	$ -	$ -

The Company has non-capital losses for income tax purposes which are available to be applied against future years' taxable income. The potential benefit associated with these losses will expire as follows:

2002	$ 547,687
2003	617,614
2004	658,291
2005	606,262
	$ 2,429,854

9. INVESTMENT TAX CREDITS

Certain research and experimental development costs are eligible for refundable investment tax credits ("ITCs") at a rate of 20% which may be applied against federal taxes payable in the current or subsequent 10 year period.

As at December 31, 1998, the Company has $158,485 ($12,038 expires in 2006, $78,564 expires in 2007 and $67,883 expires in 2008) of ITCs available for carry-forward. The tax benefit of the ITCs have not been recognized in the financial statements.

10. SHARE CAPITAL

a) Authorized

An unlimited number of:

Common shares

Non-voting redeemable preferred shares without demand or par value and which do not deem an entitlement to dividends.

b) Common shares issued

		1998		1997	
		Number of shares	**Amount**	Number of Shares	Amount
Balance, beginning of year		**14,088,127**	**$ 1,151,704**	13,818,842	$ 1,090,704
Issued for cash on exercise of warrants		-	-	40,000	18,000
Issued for cash on exercise of options		-	-	195,000	33,000
Issued for cash		-	-	34,285	10,000
Issued on conversion of 3.2% interest in Joint Venture	**(a)**	**640,000**	-	-	-
Issued on conversion of variable rate demand notes	**(b)**	**1,142,420**	**114,243**	-	-
Issued on conversion of convertible debenture	**(c)**	**6,000,000**	**600,000**	-	-
Share issue costs		-	**(3,470)**	-	-
Balance, end of year		**21,870,547**	**$ 1,862,477**	14,088,127	$ 1,151,704

a) During the year the Company entered into a joint venture agreement with a single partner to share in the gross revenue and expenses of the ENG 1 prototype. The joint venture partner paid $320,000 to the Company for its 3.2% interest. On April 10, 1998, the joint venture partner agreed to exchange its interest for 640,000 common shares of the Company which were issued from treasury on September 15, 1998. These shares are subject to a statutory hold period expiring on September 15, 1999.

b) On December 22, 1998, 1,142,420 common shares were issued from treasury to fully discharge the variable rate demand notes payable. These shares are subject to a statutory hold period expiring December 22, 1999.

c) During the year the Alberta Stock Exchange granted approval for the Company to convert the convertible debenture into common stock of the Company at a price of $0.10 per share.

The Company has established a Stock Option Plan for its directors, officers and employees and has granted options to purchase 765,000 common shares at exercise prices ranging from $0.10 to $0.37 per share. The options expire from September 30, 2000 to September 28, 2003. During the year the company cancelled 375,000 options to purchase common shares.

11. Loss per Share

The loss per share for 1998 has been calculated based on the weighted average number of common shares outstanding of the Company for the year at 14,561,046 (1997 - 14,002,063). Fully diluted loss per share has not been calculated as it is anti-dilutive.

12. Financial Instruments

The Company's financial instruments consist of accounts receivable, GST receivable, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

13. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Subsequent events

On January 12, 1999, $230,000 of the funds previously advanced by a related party described in Note 4 were secured under a convertible debenture. On January 13, 1999, the Company made application to the Alberta Stock Exchange for additional listing of 3,415,000 shares. The ASE conditionally approved the listing of 3,415,000 shares as follows: 2,300,000 shares reserved at a conversion price of $0.10 per share for the full term of the debenture maturing December 31, 1999; 1,115,000 shares are reserved for the exercise of warrants at an exercise price of $0.10 per share expiring not more than 24 months from date of closing.

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